September 10, 2021

Alkali Metals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	5.15	4.55	[ICRA]BB+(Stable) reaffirmed
Long-term– Fund Based	18.00	16.00	[ICRA]BB+(Stable) reaffirmed
Short -term – Non Fund Based	9.52	7.00	[ICRA]A4+ reaffirmed
Long-term/ Short -term Unallocated Limits	9.33	14.45	[ICRA]BB+(Stable)/[ICRA]A4+ reaffirmed
Total	**42.00**	**42.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings factors in Alkali Metals Limited's (AML/the company) long track record in the manufacturing of sodium derivatives for more than three decades and its diverse product portfolio with presence in sodium derivatives, pyridine derivatives, fine chemicals and active pharmaceutical ingredients (API). Also, the company's capital structure continues to be healthy with a gearing of 0.5 times as on March 31, 2021 owing to moderate debt levels with the debt being primarily working capital in nature. The ratings also note the moderate customer concentration risk with the top five customers contributing 42% to the total revenues in FY2021.

The ratings are, however, constrained by AML's low return indicators with the RoCE at 4-7% over the last three years on account of low capacity utilisation and high working capital intensity owing to high inventory levels. ICRA also notes the company's modest scale of operations with revenues of Rs. 55.4 crore in FY2021. The ratings also factor in the exposure of profitability to foreign exchange fluctuations (as exports account for a significant portion of AML's total sales) and volatility in raw material prices.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's belief that AML will continue to benefit from its vast track record in the manufacturing of sodium derivatives.

Key rating drivers and their description

Credit strengths

Diverse product portfolio with extensive track record in manufacturing of sodium derivatives – AML manufactures products across four categories – sodium derivatives, pyridine derivatives, fine chemicals and pharmaceutical APIs. AML has a strong market position in the manufacturing of sodium derivatives such as sodium amide, sodium azide, and sodium hydride with a track record of more than three decades. These three sodium derivatives have been the major products for the company and together contributed 68% and 67% to the overall sales in FY2020 and FY2021, respectively.

Moderate customer concentration risk – The customer concentration remained moderate with the top five customers accounting for 42% of total sales in FY2021. The customer base consists of established names with repeat orders from both domestic and export customers.

Healthy capital structure – The company's capital structure remained healthy with a gearing of 0.5 times as on March 31, 2021 owing to moderate debt levels with the debt being primarily working capital in nature. The coverage indicators remained moderate with an interest coverage of 2.4 times in FY2021. Although, the interest coverage declined to 1.1 times in Q1 FY2022, the same is expected to improve and remain over 2.5 times in FY2022.

Credit challenges

Modest scale of operations – The operating income remained modest at Rs.55.4 crore in FY2021, which declined from Rs. 70.8 crore in FY2020 due to various pandemic related challenges. However, there has been a continuous effort to develop new products and commercialise the same on a campaign basis. The revenues are likely to improve in the medium term with the expected ramp up in operations in the Vishakhapatnam unit.

Working capital intensive nature of operations – The working capital intensity has been high over the years owing to high inventory requirements. The inventory days are high as AML maintains a buffer inventory to meet sudden export orders along with the long processing time, given the various stages of the manufacturing process. Moreover, it imports more than 50% of the raw materials, so the inventory levels are high owing to the long lead time for imports. The company primarily imports sodium metal and pyridine.

The working capital intensity further increased in FY2021 with higher sales in Q4 FY2021 resulting in higher debtors and creditor days at the year end. Further, anticipating healthy orders in Q1 FY2022, the company had procured higher raw material resulting in higher inventory days. Also, higher WIP at year end increased the inventory days.

Low return indicators – The RoCE remained low at 4-7% over the last few years on account of low capacity utilisation of its facilities. The Vishakhapatnam unit was started in 2011-2012 to manufacture APIs and fine chemicals. However, the capacity utilisation remained significantly low due to a delay in getting CGMP approvals, which impacted its revenues and profitability.

Liquidity position: Stretched

AML's liquidity position is stretched due to its limited cushion available in the working capital limits and low cash balances. The liquidity position is stretched with high average utilisation of working capital limits at 93% of the sanctioned limits in the past six months ended June 2021 due to high inventory levels. The liquidity position is expected to remain stretched with high inventory levels and a decrease in sanctioned fund-based working capital limits. It has repayment obligations of Rs. 2.5 crore in FY2022 and the estimated cash flows would be sufficient to service the repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade AML's ratings if there is a substantial growth in revenues and an improvement in operating margins and liquidity.

Negative factors – Pressure on AML's rating could arise if there is a decline in revenues or operating margins, resulting in lower cash accruals. Deterioration in the working capital cycle impacting the company's liquidity position or a large debt-funded capital expenditure could also be a trigger for a rating downgrade. Specific credit metrics that could lead to a downgrade of AML's rating include interest coverage below 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

AML was set up in 1968 as a joint venture with Andhra Pradesh Industrial Development Corporation Limited (APIDCL). Initially, the company produced sodium metal, but it exited this business in 1989 as rising power costs made manufacturing sodium metal unviable. Subsequently, it diversified into manufacturing derivatives based on sodium metal, picoline and other cyclic compounds. Its products can be classified as sodium derivatives, amino pyridines, fine chemicals and APIs such as metformin. Its products are sold primarily to pharmaceutical companies for further processing and conversion into bulk drugs.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	70.8	55.4
PAT (Rs. crore)	1.3	-1.2
OPBDIT/OI (%)	9.4%	11.0%
PAT/OI (%)	1.8%	-2.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.9
Total Debt/OPBDIT (times)	3.0	3.6
Interest Coverage (times)	2.7	2.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: Amount in Rs. crore; All calculations are as per ICRA research Source: Annual report, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 10, 2021	Nov 26, 2020	Nov 7, 2019	Sep 20, 2018
1	Term Loan	Long-term	4.55	4.55	[ICRA]BB+(Stable)	[ICRA]BB+ (Stable)	-	-
2	Cash Credit Limits	Long-term	16.00	-	[ICRA]BB+(Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Non Fund Based	Short-term	7.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
4	Unallocated Limits	Long-term/ Short-term	14.45	-	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term– Fund Based Working Capital	Simple
Short -term – Non Fund Based Working Capital	Very Simple
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
State Bank of India	Term Loan-I (CECL)	Apr-20	NA	Feb-22	1.20	[ICRA]BB+(Stable)
State Bank of India	Term Loan-II (GECL)	Oct-20	NA	Oct-24	3.35	[ICRA]BB+(Stable)
State Bank of India	Cash Credit	NA	NA	NA	16.00	[ICRA]BB+(Stable)
State Bank of India	Non fund-based limits	NA	NA	NA	7.00	[ICRA]A4+
-	Unallocated limits	NA	NA	NA	14.45	[ICRA]BB+(Stable)/ [ICRA]A4+

Source: *Company; GECL -Guaranteed Emergency Credit Line; CECL -COVID 19 emergency credit line*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Sai Krishna
+91 44 45964 304
Sai.krishna@icraindia.com

Sankalpa Mohapatra
+91 40 4067 6525
sankalpa.mohapatra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches